

## **Refining the hospital readmissions reduction program**

**ISSUE:** In October 2012 CMS implemented section 1886 (q) of the Patient Protection and Affordable Care Act of 2010 (PPACA), the hospital readmissions reduction program. The program is designed to reduce payments to hospitals that have excess readmissions and encourage them to reduce their readmission rates. The initial average magnitude of the payment reduction is 0.2 percent of operating payments. Each hospital's risk is limited in fiscal year 2013 because its total penalty is capped at 1 percent of inpatient base operating payments. While the current penalty brings needed attention to high rates of readmission, the formula in law needs improvement because, aggregate penalties remain constant as national readmission rates decline, single-condition rates may reflect random variation, and hospitals with high readmission rates often have a high share of patients with low incomes. Improving current policy could require revising the measure of readmissions, the method for determining excess readmissions, and the method for computing penalties for hospitals with excess readmissions.

**KEY POINTS:** We review how readmission rates have changed over time, the current PPACA readmission policy, its proposed implementation by CMS and impacts, issues arising from the current readmission policy, and potential options for addressing those issues.

**ACTION:** Commissioners will consider findings to date and discuss options to improve the current readmissions policy.

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